



uPhongolo Local Municipality

**Annual Financial Statements
for the year ended 30 June 2014**

Annual Financial Statements

for

uPhongolo Local Municipality

for the year ended 30 June: 2014

Province: KwaZulu Natal

AFS rounding: R (i.e. only cents)

Contact Information:	
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uPhongolo Local Municipality

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General information

Members of the Council

Hadebe M M	Mayor
Ngema J B	Deputy Mayor
Ngcamphalala H V	Speaker
Makhoba M B	Member of the Executive Committee
Buthlezi E N	Member of the Executive Committee
Thabethe A Z	Member of the Executive Committee
Nxumalo K E	MPAC Chairperson
Nxumalo Z L	Member
Simelane F F	Member
Mkhwanazi N J	Member
Phakathi M J	Member
Simelane S R	Member
Dlamini M J	Member
Mavuso N P	Member
Khumalo M P	Member
Mtungwa S	Member
Nkumane M C	Member
Nyawo D	Member
Gumbi N T	Member

Municipal Manager

Mabaso N M

Chief Financial Officer

Mthethwa M R

Grading of Local Authority

Grade: 3

Auditors

Auditor-General

Legal Advisors

Norton Rose Fulbright
Mdledle and Associates

Bankers

First National Bank
Nedbank
Standard Bank

uPhongolo Local Municipality

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General information (continued)

Registered Office:	uPhongolo Municipality
Physical address:	61 Martin Street uPhongolo 3170
Postal address:	P O Box 191 uPhongolo 3170
Telephone number:	034 413 1223
Fax number:	034 413 1706
E-mail address:	www.uphongolomunicipality.gov.za

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Municipal Manager's approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 58 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

The reports and statements set out on pages 5 to 58 comprise the annual financial statements which have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) as prescribed by the Minister of Finance in terms of General Notice 516 of 2008 and the Accounting Framework as set out in the Accounting Standards Board (ASB) directives read together with directive 3 transitional provisions for low capacity municipalities.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

N M Mabaso
Municipal Manager:

Date: 29 August 2014

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ABBREVIATIONS

VAT	Value Added Tax
GRAP	Generally Recognised Accounting Practice
PPE	Property Plant and Equipment
SALGA	South African Local Government Authority
MFMA	Municipal Finance Management Act
GEPF	Government Employees Pension Fund
NJMP	Natal Joint Municipal Pension

uPhongolo Local Municipality

Statement of Financial Position
as at 30 June 2014

	Note	2014 R	Restated 2013 R
ASSETS			
Current assets		58 508 434	59 516 550
Inventories	2	227 612	138 476
Cash and cash equivalents	3	13 602 845	23 401 728
Trade and other receivables from exchange transactions	5	6 398 288	6 106 491
Trade and other receivables from non-exchange transactions	6	37 692 008	29 442 355
Prepayments	7	587 681	427 500
Non-current assets		247 742 886	209 688 862
Non-current receivables from exchange transactions	4	-	-
Property, plant and equipment	8	159 489 357	121 412 456
Intangible assets	9	81 220	104 097
Investment property	10	88 094 749	88 094 749
Heritage assets	11	77 560	77 560
Total assets		306 251 320	269 205 412
LIABILITIES			
Current liabilities		25 868 976	31 486 606
Trade and other payables from exchange transactions	12	18 419 127	16 488 351
Consumer deposits	13	452 507	511 885
VAT payable	14	3 875 602	5 665 640
Current provisions	15	312 694	131 285
Current portion of unspent conditional grants and receipts	16	(472 089)	6 042 581
Current portion of long-term borrowings	17	484 777	1 234 524
Current portion of finance lease liability	18	2 796 358	1 412 340
Non-current liabilities		10 322 043	9 257 445
Non-current borrowings	17	448 400	845 281
Non-current finance lease liability	18	3 046 637	1 271 819
Non-current provisions	15	3 958 389	4 198 508
Revenue received in advance		366 105	341 168
Defined benefit plan obligations	47	2 502 512	2 600 669
Total liabilities		36 191 019	40 744 051
Net assets		270 060 301	228 461 361
NET ASSETS			
Accumulated surplus		270 060 301	228 461 361
Total net assets		270 060 301	228 461 361

uPhongolo Local Municipality

Statement of Financial Performance
for the year ending 30 June 2014

	Note	2014 R	Restated 2013 R
REVENUE			
Revenue from exchange transactions		42 559 571	37 790 052
Service charges	20	32 547 492	28 785 442
Rental of facilities and equipment	21	840 104	577 763
Interest earned - external investments	22	1 605 345	1 043 223
Interest earned - outstanding receivables	23	4 054 622	3 281 996
Licences and permits		1 669 110	2 142 165
Other income from exchange transactions	25	1 842 898	1 959 463
Revenue from non-exchange transactions		127 616 765	99 844 701
Property rates	19	17 822 138	14 051 255
Fines		377 959	691 536
Government grants and subsidies	24	109 416 668	85 101 910
Total revenue		170 176 336	137 634 753
EXPENSES			
Employee related costs	26	36 669 530	34 181 653
Remuneration of councillors	27	6 909 158	6 093 833
Contribution to provisions		770 082	576 520
Debt impairment		7 337 293	2 537 125
Collection costs		-	255 056
Depreciation and amortisation expense	28	4 611 620	3 189 084
Repairs and maintenance		7 441 171	3 886 266
Finance costs	29	500 702	764 688
Bulk purchases	30	20 418 950	18 858 816
Contracted services	31	12 435 412	9 151 460
Grants and subsidies paid	32	2 308 512	2 690 716
General expenses	33	29 586 108	21 484 183
Total expenses		128 988 538	103 669 400
Gain / (loss) on sale of assets	34	-	-
(Impairment loss) / Reversal of impairment loss	35	(45 241)	(396 816)
Gain / (loss) on fair value adjustment	36	467 187	101 475
Inventories: Written down to net realisable value	2	(10 804)	(30 623)
Surplus / (deficit) for the period		41 598 940	33 639 389

uPhongolo Local Municipality

Statement of Changes in Net Assets
as at 30 June 2014

	Note	Accumulated Surplus R	Total: Net Assets R
Balance at 30 June 2012 as previously reported		198 660 965	198 660 965
Adjustments:			
Correction of prior period error		(450 086)	(450 086)
Balance at 30 June 2012 as restated		198 210 879	198 210 879
Adjustments:			
Correction of prior period error		(635 045)	(635 045)
Changes in net assets:			
Surplus for the period		33 639 389	33 639 389
Balance at 30 June 2013 as previously reported		231 215 223	231 215 223
Adjustments:			
Correction of prior period error	39	(2 753 862)	(2 753 862)
Balance at 30 June 2013 as restated		228 461 361	228 461 361
Changes in net assets:			
Surplus for the period		41 598 940	41 598 940
Balance at 30 June 2014		270 060 301	270 060 301

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uPhongolo Local Municipality

Cash Flow Statements as at 30 June 2014

	Note	2014 R	Restated 2013 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		141 225 300	137 691 757
Sale of goods and services		32 663 334	36 638 738
Grants		102 902 000	96 727 800
Interest income		5 659 966	4 325 219
Other receipts		-	-
Payments		(108 933 993)	(107 773 306)
Employee costs		(36 669 530)	(34 181 653)
Councillors allowances		(6 909 158)	(6 093 833)
Suppliers		(64 854 603)	(66 733 132)
Interest paid		(500 702)	(764 688)
Other payments		-	-
Net cash flows from operating activities	37	32 291 307	29 918 451
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(42 243 709)	(19 232 011)
Proceeds from sale of fixed assets		467 187	101 475
Proceeds from sale of investments		-	-
Purchase of intangibles		-	-
Decrease/(Increase) in loans and receivables		-	687 673
Movement		(2 753 862)	(635 045)
Net cash flows from investing activities		(44 530 384)	(19 077 908)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		112 789	(907 331)
Repayment of borrowings		(654 001)	(2 706 782)
Proceeds from finance lease liability		4 569 955	-
Repayment of finance lease liability		(1 588 549)	-
Net cash flows from financing activities		2 440 194	(3 614 113)
Net increase / (decrease) in cash and cash equivalents		(9 798 883)	7 226 430
Net cash and cash equivalents at beginning of period		23 401 728	16 175 298
Net cash and cash equivalents at end of period	38	13 602 845	23 401 728

INFORMATION PURPOSES ONLY - DO NOT PRINT

Examples of operating activities

- a) cash receipts from taxes, levies and fines;
- (b) cash receipts from charges for goods and services provided by the entity;
- (c) cash receipts from grants or transfers and other appropriations or other budget authority made by national government or other entities;
- (d) cash receipts from royalties, fees, commissions and other revenue;
- (e) cash payments to other entities to finance their operations (not including loans);
- (f) cash payments to suppliers for goods and services;
- (g) cash payments to and on behalf of employees;
- (h) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (i) cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
- (j) cash receipts and payments from contracts held for dealing or trading purposes;
- (k) cash receipts or payments from discontinuing operations; and
- (l) cash receipts or payments in relation to litigation settlements.

Examples of Investing Activities

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except

Examples of Financing Activities

- a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- (b) cash repayments of amounts borrowed; and
- (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

uPhongolo Local Municipality

Statement of Financial Position
as at 30 June 2014

Statement of Comparison of Budget and Actual Amounts

	Approved Budget R	Budget Adjustments R	Final Budget R	Actual Outcome R	Difference between budget and actual R
Statement of Financial Position					
Assets					
Current assets					
Inventories	133 347	5 129	138 476	227 612	(89 136)
Cash and cash equivalents	21 321 626	(3 248 439)	18 073 187	13 602 845	4 470 342
Trade and other receivables from exchange transactions	4 056 430	5 546 529	9 602 959	6 398 288	3 204 671
Trade and other receivables from non-exchange transactions	12 670 851	16 694 602	29 365 453	37 692 008	(8 326 555)
Prepayments	-	427 500	427 500	587 681	(160 181)
Non-current assets					
Non-current receivables from non-exchange transactions					
Property, plant and equipment	191 756 775	(6 643 980)	185 112 795	159 489 357	25 623 438
Intangible assets	1 716 432	(1 644 000)	72 432	81 220	(8 788)
Investment property	88 094 749	-	88 094 749	88 094 749	-
Heritage assets	-	77 560	77 560	77 560	-
Total assets	319 750 210	11 214 901	330 965 111	306 251 320	24 713 791
LIABILITIES					
Current liabilities					
Trade and other payables from exchange transactions	11 988 536	2 852 077	14 840 613	18 419 127	(3 578 514)
Consumer deposits	1 180 939	-	1 180 939	452 507	728 432
VAT payable	5 665 640	-	5 665 640	3 875 602	1 790 038
Current provisions	-	-	-	312 694	-
Current portion of unspent conditional grants and receipts	1 840 366	(1 840 366)	-	(472 089)	472 089
Current portion of long-term borrowings	3 345 010	(2 110 486)	1 234 524	484 777	749 747
Current portion of finance lease liability	806 849	605 491	1 412 340	2 796 358	(1 384 018)
Non-current liabilities					
Non-current portion of long-term borrowings	5 134 713	(3 752 093)	1 382 620	448 400	934 220
Non-current portion of finance lease liability	13 557 852	(7 926 128)	5 631 724	3 046 637	2 585 087
Non-current provisions	1 926 750	1 934 950	3 861 700	3 958 389	(96 689)
Defined benefit plan obligations	2 978 343	(377 674)	2 600 669	2 502 512	98 157
Payment received in advance	1 947 377	(907 331)	1 040 046	366 105	673 941
Total liabilities	50 372 375	(11 521 560)	38 850 815	36 191 019	2 972 490
Net assets	269 377 835	22 736 461	292 114 296	270 060 301	21 741 301
NET ASSETS					
Accumulated surplus	269 377 835	22 736 461	292 114 296	270 060 301	21 741 301
Total net assets	269 377 835	22 736 461	292 114 296	270 060 301	21 741 301

uPhongolo Local Municipality

Statement of Financial Performance
as at 30 June 2014

Statement of Comparison of Budget and Actual Amounts

	Approved Budget R	Budget Adjustments R	Final Budget R	Actual Outcome R	Difference between budget and actual R
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Service charges	29 484 771	1 176 673	30 661 444	32 547 492	(1 886 048)
Rental of facilities and equipment	868 665	439 720	1 308 385	840 104	468 281
Interest earned - external investments	1 314 190	62 379	1 376 569	1 605 345	(228 776)
Interest earned - outstanding receivables	3 369 562	232 795	3 602 357	4 054 622	(452 265)
Licences and permits	2 315 037	(21 120)	2 293 917	1 669 110	624 807
Other income from exchange transactions	2 018 338	(567 914)	1 450 424	1 842 898	(392 474)
Revenue from non-exchange transactions					
Property rates	13 837 153	3 959 497	17 796 650	17 822 138	(25 488)
Fines	374 297	-	374 297	377 959	(3 662)
Government grants and subsidies	108 889 000	20 390 000	129 279 000	109 416 668	19 862 332
Total revenue	162 471 013	25 672 030	188 143 043	170 176 336	17 966 707
Expenses					
Employee related costs	35 555 275	1 971 147	37 526 422	36 669 530	856 892
Remuneration of councillors	6 880 478	160 200	7 040 678	6 909 158	131 520
Bad debts	1 369 385	-	1 369 385	7 337 293	(5 967 908)
Collection costs	300 000	-	300 000	-	300 000
Depreciation and amortisation expense	3 822 653	-	3 822 653	4 611 620	(788 967)
Repairs and maintenance	8 310 592	(69 028)	8 241 564	7 441 171	800 393
Finance costs	1 338 897	(933 832)	405 065	500 702	(95 637)
Bulk purchases	20 924 732	636 108	21 560 840	20 418 950	1 141 890
Contracted services	10 010 335	757 925	10 768 260	12 435 412	(1 667 152)
Grants and subsidies paid	2 399 971	1 233 800	3 633 771	2 308 512	1 325 259
General expenses	36 955 965	(1 938 312)	35 017 653	30 356 190	4 661 463
Total expenses	127 868 283	1 818 008	129 686 291	128 988 538	697 753
Gain / (loss) on sale of assets					
(Impairment loss) / Reversal of impairment loss				(45 241)	45 241
Gain / (loss) on fair value adjustment				467 187	(467 187)
Inventories: Written down to net realisable value				(10 804)	10 804
Surplus / (deficit) for the period	34 602 730	23 854 022	58 456 752	41 598 940	16 857 812

uPhongolo Local Municipality

Cash Flow Statement
as at 30 June 2014

Statement of Comparison of Budget and Actual Amounts

	Approved Budget R	Budget Adjustments R	Final Budget R	Actual Outcome R	Difference between budget and actual R
Cash Flow Statement					
Receipts					
Taxation					
Sales of goods and services	49 716 220	5 640 242	55 356 462	32 663 334	22 693 128
Grants	108 889 000	20 390 000	129 279 000	102 902 000	26 377 000
Interest received	1 314 190	62 379	1 376 569	5 659 966	-4 283 397
Other receipts					
Payments					
Employee costs	-42 435 753	-2 131 347	-44 567 100	-43 578 688	-988 412
Suppliers	-71 114 221	-15 210 615	-86 324 836	-64 854 603	-21 470 233
Interest paid	-1 338 897	933 832	-405 065	-500 702	95 637
Other payments					
Net cash flows from operating activities	45 030 539	9 684 491	54 715 030	32 291 307	22 423 723
Cash Flows From Investing Activities					
Purchase of fixed assets (PPE)	-57 627 250	-8 108 500	-65 735 750	-42 243 709	-23 492 041
Proceeds from sale of fixed assets			-		
Proceeds from sale of investments			-		
Purchase of intangibles			-		
Decrease/(Increase) in Loans and receivables			-		
Movement			-	-2 286 675	2 286 675
Net cash flows from investing activities	-57 627 250	-8 108 500	-65 735 750	-44 530 384	-21 205 366
Cash Flows From Financing Activities					
Proceeds from borrowings	10 250 000	-10 250 000	-	112 789	-112 789
Repayment of borrowings	-1 584 000	875 421	-708 579	-654 001	-54 578
Proceeds from finance lease liability	7 293 000	-14 000	7 279 000	4 569 955	2 709 045
Repayment of finance lease liability	-1 540 958	662 716	-878 242	-1 588 549	710 307
Net cash flows from financing activities	14 418 042	-8 725 863	5 692 179	2 440 194	3 251 985
Net increase / (decrease) in cash and cash equivalents	1 821 331	-7 149 872	-5 328 541	-9 798 883	4 470 342
Net cash and cash equivalents at beginning of period	19 500 295	3 901 433	23 401 728	23 401 728	-
Net cash and cash equivalents at end of period	21 321 626	-3 248 439	18 073 187	13 602 845	4 470 342

uPhongolo Local Municipality															
Statement of Comparison of Budget and Actual Information															
as at 30 June 2014															
	2014										2013				
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Financial Performance															
Property rates	13 837 153	3 959 497	17 796 650			17 796 650	17 822 138		(25 488)	100%	129%				
Service charges	29 484 771	1 176 673	30 661 444			30 661 444	32 547 492		(1 886 048)	106%	110%				
Investment revenue	4 683 752	295 174	4 978 926			4 978 926	5 659 966		(681 040)	114%	121%				
Transfers recognised - operational	72 388 250	809 000	73 197 250			73 197 250	75 292 202		(2 094 952)	103%	104%				
Other own revenue	5 576 337	(149 314)	5 427 023			5 427 023	5 197 257		229 766	96%	93%				
Total Revenue (excluding capital transfers and contributions)	125 970 263	6 091 030	132 061 293	-	-	132 061 293	136 519 055		(4 457 762)	103%	108%				
Employee costs	35 555 275	1 971 147	37 526 422			37 526 422	36 669 530		856 892	98%	103%				
Remuneration of councillors	6 880 478	160 200	7 040 678			7 040 678	6 909 157		131 521	98%	100%				
Debt impairment	1 369 385	-	1 369 385			1 369 385	7 337 292		(5 967 907)	536%	536%				
Depreciation & asset impairment	3 822 653	-	3 822 653			3 822 653	4 656 861		(834 208)	122%	122%				
Finance charges	1 338 897	(933 832)	405 065			405 065	500 702		(95 637)	124%	37%				
Materials and bulk purchases	29 235 324	567 080	29 802 404			29 802 404	27 860 121		1 942 283	93%	95%				
Transfers and grants	2 399 971	1 233 800	3 633 771			3 633 771	2 308 512		1 325 259	64%	96%				
Other expenditure	47 266 300	(1 180 387)	46 085 913			46 085 913	42 802 406		3 283 507	93%	91%				
Total Expenditure	127 868 283	1 818 008	129 686 291	-	-	129 686 291	129 044 581		641 710	100%	101%				
Surplus/(Deficit)															
Transfers recognised - capital	36 500 750	19 581 000	56 081 750			56 081 750	34 124 466		21 957 284	61%	93%				
Contributions recognised - capital & contributed assets			-			-	-								
Surplus/(Deficit) after capital transfers & contributions	34 602 730	23 854 022	58 456 752	-	-	58 456 752	41 598 940		16 857 812	71%	120%				
Share of surplus/ (deficit) of associate	-		-			-									
Surplus/(Deficit) for the year	34 602 730	23 854 022	58 456 752	-	-	58 456 752	41 598 940		16 857 812	71%	120%				
Capital expenditure & funds sources															
Capital expenditure	57 627 250	8 109 000	65 736 250			65 736 250	42 243 709		23 492 541	64%	73%				
Transfers recognised - capital	36 500 750	19 581 000	56 081 750			56 081 750	34 124 466		21 957 284	61%	93%				
Public contributions & donations			-			-			-	0%	0%				
Borrowing	17 543 000	-10 264 000	7 279 000			7 279 000	4 569 955		2 709 045	63%	26%				
Internally generated funds	3 583 500	-1 208 000	2 375 500			2 375 500	3 549 288		(1 173 788)	149%	99%				
Total sources of capital funds	57 627 250	8 109 000	65 736 250	-	-	65 736 250	42 243 709		23 492 541	64%	73%				
Cash flows															
Net cash from (used) operating	45 030 539	9 684 491	54 715 030	-	-	54 715 030	32 291 307		22 423 723	59%	72%				
Net cash from (used) investing	-57 627 250	-8 108 500	-65 735 750	-	-	(65 735 750)	(44 530 384)		(21 205 366)	68%	77%				
Net cash from (used) financing	14 418 042	-8 725 863	5 692 179	-	-	5 692 179	2 440 194		3 251 985	43%	17%				
Net increase/(decrease) in cash and cash equivalents	1 821 331	-7 149 872	-5 328 541	-	-	(5 328 541)	-9 798 883		4 470 342	184%	-538%				
Cash/cash equivalents at the beginning of year	19 500 295	3 901 433	23 401 728	-	-	23 401 728	23 401 728		-	100%	120%				
Cash/cash equivalents at the year end	21 321 626	-3 248 439	18 073 187	-	-	18 073 187	13 602 845		4 470 342	75%	64%				

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June 2014

1 Accounting Policies

1.1 Basis of Accounting

Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Comparative

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 - Segment Reporting

Compliance with this standard would have had an effect of the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity.

GRAP 20 - Related Party Disclosures

Compliance with this standard would have had an effect of the presentation only. Related party transactions have been disclosed in accordance with IPSAS 20.

GRAP 105 - Transfers of Functions Between Entities Under Common Control

Compliance with this standard would not have an impact on the current financial information as the municipality does not have entities.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

GRAP 107 - Mergers

Compliance with this standard would not have an impact on the current financial information as no transactions relating to mergers exist in the current year.

1.2 Property, Plant and Equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Initial measurement

Items of property, plant and equipment are initially measured at cost at the acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent expenditure

Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The depreciable amount is determined after taking into account an assets' residual value, where applicable. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Details	Years
Infrastructure	
Roads and Paving	20 years
Electricity	20-30 years
Community	
Buildings	30 years
Halls	30 years
Libraries	30 years
Heritage assets	
Paintings and artifacts	0 years
Finance lease assets	
Machinery and equipment	5 years
Motor vehicles	5 years
Other	
Land	Indefinite
Buildings	30 years
Specialised vehicles	5 years
Other vehicles	5 years
Office equipment	1-5 years
Furniture and fittings	1-5 years
Computer equipment	3 years
Plant and equipment	5 years
Landfill sites	0 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Impairment

Refer to accounting policy number

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.3 Heritage assets

Initial recognition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

Initial measurement

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Subsequent measurement

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

Impairment

Refer to accounting policy number 1.19

Derecognition

The carrying amount of a heritage asset is derecognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.4 Intangible assets

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
 - it is technically feasible to complete the intangible asset;
 - the municipality has the resources to complete the project; and
 - it is probable that the municipality will receive future economic benefits or service potential;
- municipality has the ability to measure reliably the expenditure during development. • the

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in Statement of Financial Performance in the expense category consistent with the function of the intangible asset. During the period of development, the asset is tested for impairment annually.

Summary of Significant Accounting Policies for the year ending 30 June

Amortisation

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Impairment

Refer to accounting policy number	1.19
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Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.5 Investment property

Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date.

Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

Impairment - investment property held at cost

Refer to accounting policy number	1.19
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Derecognition

Investment property is derecognised when there is a disposal or no future economic benefits or service potential are to All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.6 Non-current assets held for sale

Recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

Derecognition

Non-current assets and disposal groups held for sale are derecognised upon disposal of the item or where no further economic benefits or service potential is expected to flow from the asset or disposal group. Gains / loss that result from the derecognition of non-current assets or disposal groups held for sale are recognised in surplus / deficit in the period of the derecognition.

1.7 Inventories

Initial recognition and measurement

Inventories comprise current assets held for, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The basis of determining cost is the [first-in, first-out (FIFO) method]

Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.8 Financial instruments

Initial recognition

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities,

Initial measurement

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

for the year ending 30 June

Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

Investment at amortised costs

Investments, which include [listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks] are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Investment at fair value

Investments, which represent investments in residual interest for which fair value can be measured reliably, are subsequently measured at fair value.

Gains and losses in the fair value of such investments are recognised in the Statement of Financial Performance.

Investment at cost

Investments at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade payables and borrowings

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.9 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

for the year ending 30 June

1.10 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.11 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.12 Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for terminating ;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.13 Budget information

The annual budget figures have been presented in accordance with the GRAP reporting framework. A separate statement of comparison of budget and actual amounts, which forms part of the annual financial statements has been prepared. The comparison of budget and actual amount will be presented on the same accounting basis, same classification basis and for the same entity and period as for the approved budget. The budget of the municipality is taken for a stakeholder consultative process and upon approval the approved budget is made publicly available

Material differences in terms of the basis, timing or entity have been disclosed in the notes to the annual financial statements.

The most recent approved budget by Council is the final budget for the purpose of comparison with the actual amounts.

1.14 Leases

Operating lease - Municipality as lessee

Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Assets subject to a finance lease, as recognised in the Statement of Financial Position, are measured (at initial recognition) at the lower of the fair value of the assets and the present value of the future minimum lease payments. Subsequent to initial recognition these capitalised assets are depreciated over the contract term.

The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and / or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

Derecognition

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

Operating lease - Municipality as lessor

Recognition

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

for the year ending 30 June

Measurement

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

1.15 Revenue

Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Measurement

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Measurement

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. The income is recognised in terms of the agency agreement.

Expenditure from exchange transactions

Expenditure arising from exchange-transactions is similar to the policy for exchange revenue.

Revenue from non-exchange transactions

Recognition

Revenue from non-exchange transaction arises when the entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Measurement

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is due to the Municipality, it is recognised as interest earned in the Statements of Financial Performance.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Expenditure from non-exchange transactions

Expenditure arising from non-exchange transactions is similar to policy for non-exchange revenue.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.17 Long service awards

Provision for long service awards represents the present value of the estimated future cash outflows to be made by the Municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises amounts that the Municipality has a present obligation to pay resulting from employees services provided up to Statement of Financial Position date.

1.18 Retirement benefits

Short-term employee benefits

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

1.19 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Post-retirement benefits

The entity provides post-employment benefits for its officials. These benefits are provided as defined contribution plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year using the actuarial valuation. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the medical obligations. In determining the appropriate discount rate, the Municipality considers the interest rates that are best approximated by reference to market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical liability.

Retirement funds

The municipality contributes towards retirement benefits of its employees to the under-mentioned pension funds:

- Natal Joint Municipal Pension Fund
- Government Employees Pension Fund
- Municipal Gratuity Fund
- SALA Pension Fund

Councillors do not contribute to any pension fund.

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Post employment medical care benefits

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost, of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance with the transitional arrangements in directive 3 issued by the ASB.

Provision for impairment of trade receivables

The provision for impairment is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flow based on past recovery trends discounted at the effective interest rate computed at initial recognition.

Impairment of non-financial assets

Recognition

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

Measurement

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset. In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Where the asset is a non-cash generating asset the recoverable amount is determined as the higher of the value in use and fair value less cost to sell.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

Reversal of impairment

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Impairment of non-financial assets

Property, plant and equipment

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

Intangible assets

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Irrespective of whether there is any indication of impairment, the municipality also tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

Investment property held at cost

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Heritage assets

Where the carrying amount of an item of heritage asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of heritage asset have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Provisions

Provisions are recognised when:

- the municipality has a present obligation as result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation

The amount of a provision is the best estimate of the obligation of the expenditure expected to be required to settle the present obligation at the reporting date.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some of all the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised. Provisions are not recognised for future operating deficits. If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

Provisions

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditure arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised.

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets are not recognised.

1.20 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives. The approved budget covers the fiscal period from 1 July 2013 to 30 June 2014.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of budget and actual amounts.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

uPhongolo Local Municipality

Summary of Significant Accounting Policies for the year ending 30 June

1.22 Commitments

The municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods, e.g. A contract for construction of infrastructure assets. In these events, the municipality has a commitment to future transactions that will normally result in the outflow of cash.

Commitments are not recognised in the Statement of Financial Position as a liability, but are disclosed in the annual financial statements provided:

- they are non-cancellable or only cancellable at significant cost; and
- they relate to something other than the routine, steady, state business of the municipality.

1.23 Landfill restoration

The municipality has an obligation to rehabilitate the landfill site at the end of the usage period of 6 years. It is expected that the cost to rehabilitate the landfill site will amount to R15 million at the end of 6 years. The landfill site rehabilitation provision is created for the rehabilitation of the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the site discounted back to the reporting date at the cost of capital, which is 5%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful life and makes assumptions as to the useful life of the assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Inflation rate of 5%
- Discount rate of 8%
- Total area expected to be rehabilitated: 3 ha

1.24 Value added tax

The municipality accounts for Value Added Tax on the payment basis.

1.25 Taxation

The uPhongolo Local Municipality is exempted from tax in terms of Section 10(1)cB(i)(ff) of the Income Tax Act.

1.26 Events after reporting date

Recognised amounts in the financial statements are adjusted to reflect events arising after the reporting date that provided evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note to the annual financial statements.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	2014 R	2013 R
2 Inventories		
Opening balance	138 476	133 347
Additions	1 245 283	634 618
Issued (expensed)	(1 145 343)	-598 865
Write-down	(10 804)	-30 623
Consumable stores	227 612	138 476

The Municipality has not pledged inventory as security.

3 Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash on hand	1 640	574
Cash at bank	2 182 189	190 453
Call deposits	11 419 016	23 210 701
Closing balance cash and cash equivalents	13 602 845	23 401 728

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

First National Bank Limited - uPhongolo Branch: Account No. 62027530858	2 180 251	188 534
First National Bank Limited - uPhongolo Branch: Account No. 62253771896	1 938	1 919

Cash book balance at beginning of year	190 453	7 437 712
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Cash book balance at end of year	2 182 189	190 453
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Bank statement balance at beginning of year	190 453	7 385 712
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Bank statement balance at end of year	2 182 189	190 453
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Call Accounts

First National Bank Limited - uPhongolo Branch: Account No. 62031378938	-	333
First National Bank Limited - uPhongolo Branch: Account No. 62230436405	11 141	11 030
First National Bank Limited - uPhongolo Branch: Account No. 62204162870	-	2 157
First National Bank Limited - uPhongolo Branch: Account No. 62375357186	20 883	11 094
First National Bank Limited - uPhongolo Branch: Account No. 62375342377	22 921	712 979
First National Bank Limited - uPhongolo Branch: Account No. 62377992104	21 312	10 059
First National Bank Limited - uPhongolo Branch: Account No. 62380902017	10 825	267 423
First National Bank Limited - uPhongolo Branch: Account No. 62389553085	356 579	2 746 353
First National Bank Limited - uPhongolo Branch: Account No. 62389564024	2 677 390	3 051 504
First National Bank Limited - uPhongolo Branch: Account No. 62389564024	2 759 289	3 051 504
First National Bank Limited - uPhongolo Branch: Account No. 62389586507	812 114	3 051 504
First National Bank Limited - uPhongolo Branch: Account No. 62404561377	143 222	48 443
First National Bank Limited - uPhongolo Branch: Account No. 62404287345	405 053	6 052 128
First National Bank Limited - uPhongolo Branch: Account No. 62417482289	104 264	100 000
First National Bank Limited - uPhongolo Branch: Account No. 62417484235	417 060	400 000
First National Bank Limited - uPhongolo Branch: Account No. 62417486190	14 108	525 000
First National Bank Limited - uPhongolo Branch: Account No. 62305239718	776 656	749 234
Nedbank Limited - uPhongolo Branch: Account No. 03/7165014950/000001	-	549 356
Nedbank Limited - uPhongolo Branch: Account No. 03/7165014950/000002	8 488	28 244
Nedbank Limited - uPhongolo Branch: Account No. 03/7165014950/000003	219 372	-
Nedbank Limited - uPhongolo Branch: Account No. 03/7165014950/000004	1 255 938	-
Standard Bank Limited - Vryheid Branch: Account No. 068686234-001	-	86 129
Standard Bank Limited - Vryheid Branch: Account No. 068686234-002	1 027 063	977 373
Standard Bank Limited - Vryheid Branch: Account No. 068686234-003	1 347	1 316
Standard Bank Limited - Vryheid Branch: Account No. 068686234-004	-	439 836
Standard Bank Limited - Vryheid Branch: Account No. 74275780911	353 991	337 702

Cash book balance at beginning of year	23 210 701	8 403 058
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Cash book balance at end of year	11 419 016	23 210 701
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uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	2014 R	2013 R
3 Cash and Cash Equivalents		
Bank statement balance at beginning of year	23 210 701	8 403 058
Bank statement balance at end of year	11 419 016	23 210 701
Cash on hand	1 640	574
Total cash and cash equivalents	13 602 845	23 401 728

Call investments amounting to R10 690 257 (2013: R22 553 660) have been ring-fenced for the purposes of defraying capital expenditure financed with conditional grants as set out in Note 17.

4 Non-current Receivables

KZN Department of Human Settlement (Housing Scheme)	3 262 978	3 262 978
Receivables in respect of properties sold - Ncotshane Township	300 262	351 894
	3 563 240	3 614 872
Less: Provision for impairment	(3 563 240)	(3 614 872)
Total	-	-

The Municipality bridge-financed the Ncotshane Housing Project in 2006 with an amount of R3,262 million after the KZN Department of Human Settlement had withheld funding due to expenditure not commensurate with the work executed. Attempts are being made to recover the debt, however, it has been considered prudent to provide for non-recovery.

Properties were sold to certain residents of Ncotshane Township prior to 1994, however, according to the Deeds Office the properties are not registered in the names of the buyers.

5 Trade and other receivables for exchange transactions	Gross Balances	Provision for Doubtful Debts	Net Balance
	R	R	R
Trade receivables as at 30 June 2014			
Service debtors			
Electricity	6 207 696	-1 558 634	4 649 062
Refuse	42 497 530	-40 881 625	1 615 905
Total	48 705 226	-42 440 259	6 264 967
Other receivables	953 378	-820 057	133 321
Other receivables	953 378	-820 057	133 321
Total Trade and other receivables	49 658 604	-43 260 316	6 398 288
Trade receivables as at 30 June 2013			
Service debtors			
Electricity	5 516 887	-361 358	5 155 529
Refuse	35 940 223	-35 108 380	831 843
Total	41 457 110	-35 469 738	5 987 372
Other trade receivables	520 771	-401 652	119 119
Other receivables	520 771	-401 652	119 119
Total Trade and other receivables	41 977 881	-35 871 390	6 106 491
Electricity: Ageing			
Current (0 – 30 days)		3 452 910	2 814 349
31 - 60 Days		856 050	1 455 262
61 - 90 Days		340 104	244 272
91 - 120 Days		159 745	155 007
121 - 365 Days		1 398 889	847 997
+ 365 Days			
Total		6 207 698	5 516 887

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	2014 R	2013 R
<u>Refuse: Ageing</u>		
Current (0 – 30 days)	621 207	508 549
31 - 60 Days	539 890	472 087
61 - 90 Days	464 809	372 189
91 - 120 Days	476 864	366 885
121 - 365 Days	40 394 759	34 220 513
+ 365 Days		
Total	42 497 529	35 940 223

<u>Rental: Ageing</u>		
Current (0 – 30 days)	49 294	34 030
31 - 60 Days	47 948	17 216
61 - 90 Days	18 348	13 326
91 - 120 Days	14 460	7 241
121 - 365 Days	650 943	233 187
+ 365 Days		
Total	780 993	305 000

<u>Other: Ageing</u>		
Current (0 – 30 days)	6 014	4 554
31 - 60 Days	1 452	5 627
61 - 90 Days	265	1 106
91 - 120 Days	482	424
121 - 365 Days	164 172	163 646
+ 365 Days		
Total	172 385	175 357

<u>Summary of Debtors by Customer Classification</u>	Consumers	Industrial / Commercial	National and Provincial Government
	R	R	R
as at 30 June 2014			
Current (0 – 30 days)	1 383 507	2 531 690	1 173 414
31 - 60 Days	963 348	949 154	640 447
61 - 90 Days	696 578	614 102	452 293
91 - 120 Days	671 423	442 063	435 437
121 - 365 Days	4 778 928	2 941 583	1 892 398
+ 365 Days	55 318 373	7 741 779	1 890 597
Sub-total	63 812 157	15 220 371	6 484 586
Less: Provision for doubtful debts	(41 042 967)	(1 557 395)	(659 952)
Total debtors by customer classification	22 769 190	13 662 976	5 824 634

as at 30 June 2013			
Current (0 – 30 days)	1 249 477	1 935 837	201 156
31 - 60 Days	990 708	1 461 474	128 032
61 - 90 Days	620 655	248 203	82 561
91 - 120 Days	609 232	153 700	67 267
121 - 365 Days	51 038 956	2 516 657	2 317 766
+ 365 Days			
Sub-total	54 509 028	6 315 871	2 796 782
Less: Provision for doubtful debts			
Total debtors by customer classification	54 509 028	6 315 871	2 796 782

<u>Reconciliation of the doubtful debt provision</u>		
Balance at beginning of the year	35 871 390	33 686 159
Contributions to provision	7 388 926	2 185 231
Balance at end of year	43 260 316	35 871 390

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	2014 R	2013 R
<u>Trade and other receivables past due but not impaired</u>		
Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R5,466,276 (2013: R5,010,552) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	3 197 410	2 429 467
2 months past due	1 445 340	1 950 192
3 months past due	823 526	630 893

Trade and other receivables impaired

As of 30 June 2014, trade and other receivables of R43,260,314 (2013: R35,994,900) were impaired and provided for.
The amount of the provision was R43,260,314 as of 30 June 2014 (2013: R35,871,390).

The ageing of these receivables is as follows:

3 to 6 months	70 635 813	59 669 141
Over 6 months	-	-

The fair value of trade and other receivables approximates their carrying amounts.

6 Trade and other receivables for non-exchange transactions

Trade receivables - Property Rates	37 050 733	29 039 901
Outstanding deposit	64 537	40 414
Subsidies	-	-
Fruitless expenditure (see Note 41)	236 680	-
Other debtors	340 058	362 040
Total	37 692 008	29 442 355

<u>Trade receivables - Property Rates</u>	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
as at 30 June 2014			
Property Rates	37 050 733	-	37 050 733
	37 050 733	-	37 050 733

	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
as at 30 June 2013			
Property Rates	29 039 901	-	29 039 901
	29 039 901	-	29 039 901

Property Rates: Ageing

Current (0 – 30 days)	2 151 410	-	1 430 255
31 - 60 Days	1 107 610	-	1 060 794
61 - 90 Days	939 445	-	561 319
91 - 120 Days	897 371	-	521 317
121 - 365 Days	4 904 553	-	25 466 216
+ 365 Days	27 050 343	-	
Total	37 050 732	-	29 039 901

Property rates are not considered in the computation of debt impairment since they are collectable in terms of the Property Rates Act and the relevant property serves as security for non-payment

7 Prepayments

Prepaid subscriptions - SALGA	475 000	427 500
Deposit for fire-arms	84 520	-
Fuel deposit	28 161	-

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

2014	2013
R	R
587 681	427 500

SALGA subscriptions relating to following financial year, were paid in the current year.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

8 Property, plant and equipment

Reconciliation of Carrying Value - 2014

	Land R	Buildings R	Infrastructure R	Other Assets R	Total R
as at 1 July 2013	18 124 422	7 326 454	89 118 317	6 843 263	121 412 456
Cost/Revaluation	18 124 422	14 005 553	100 124 388	12 184 331	144 438 694
Correction of error (note 39)	-	-	-	-	-
Accumulated depreciation and impairment losses	-	(6 679 099)	(11 006 071)	(5 341 068)	(23 026 238)
Acquisitions	-	-	-	5 027 714	5 027 714
Capital under Construction	-	-	37 683 180	-	37 683 180
Depreciation	-	(419 863)	(3 245 593)	(923 287)	(4 588 743)
Carrying value of disposals	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	(12 623)	(2 415)	(30 203)	(45 241)
as at 30 June 2014	18 124 422	6 893 968	123 553 489	10 917 487	159 489 366
Cost/Revaluation	18 124 422	14 005 553	137 807 568	17 212 045	187 149 588
Accumulated depreciation and impairment losses	-	(7 111 585)	(14 254 079)	(6 294 558)	(27 660 222)

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

8 Property, plant and equipment (Continued)

- Reconciliation of Carrying Value - 2013

	Land R	Buildings R	Infrastructure R	Other Assets R	Total R
as at 1 July 2012	18 124 422	7 810 061	72 372 084	7 447 774	105 754 341
Cost/Revaluation	17 695 918	12 853 302	87 011 840	11 588 523	129 149 583
Correction of error (note 39)	428 504	1 152 251	(5 512 789)	-	(3 932 034)
Accumulated depreciation and impairment losses	-	(6 195 492)	(9 126 967)	(4 140 749)	(19 463 208)
Acquisitions	-	-	-	595 808	595 808
Capital under Construction	-	-	18 625 337	-	18 625 337
Depreciation	-	(427 011)	(1 879 104)	(860 099)	(3 166 214)
Carrying value of disposals	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	(56 596)	-	(340 220)	(396 816)
as at 30 June 2013	18 124 422	7 326 454	89 118 317	6 843 263	121 412 456
Cost/Revaluation	18 124 422	14 005 553	100 124 388	12 184 331	144 438 694
Accumulated depreciation and impairment losses	-	(6 679 099)	(11 006 071)	(5 341 068)	(23 026 238)

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	2014 R	2013 R
9 Intangible assets		
Reconciliation of carrying value	Computer Software R	Other R
as at 1 July 2013	104 097	-
Cost	277 783	-
Accumulated amortisation and impairment losses	(173 686)	-
Amortisation	(22 877)	-
as at 30 June 2014	81 220	-
Cost	277 783	-
Accumulated amortisation and impairment losses	(196 563)	-
Reconciliation of carrying value	Computer Software R	Other R
as at 1 July 2012	126 970	-
Cost	277 783	-
Accumulated amortisation and impairment losses	-150 813	-
Amortisation	(22 873)	-
as at 30 June 2013	104 097	-
Cost	277 783	-
Accumulated amortisation and impairment losses	(173 686)	-

10 Investment property carried at cost

as at 30 June 2014

	Cost/Valuation	Accumulated depreciation and Impairment	Carrying value
Revenue generating	3 478 000		3 478 000
Non-revenue generating	84 616 749		84 616 749
Total	88 094 749	-	88 094 749

as at 30 June 2013

	Cost/Valuation	Accumulated depreciation and Impairment	Carrying value
Revenue generating	3 478 000		3 478 000
Non-revenue generating	84 616 749		84 616 749
Total	88 094 749	-	88 094 749

The fair value of the above properties is R88 million (2013: R88 million). Investment properties have been valued in accordance with current market conditions.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
as at 30 June 2014

11 Heritage assets

Reconciliation of carrying value	Historical Buildings R	Paintings and Artefacts R	Other R	Total R
as at 1 July 2013	77 560	-	-	77 560
Cost/Revaluation	77 560	-	-	77 560
Correction of error (note 39)				-
Accumulated impairment losses	-	-	-	-
Acquisitions	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated impairment losses	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Under Construction	-	-	-	-
Other movements	-	-	-	-
as at 30 June 2014	77 560	-	-	77 560
Cost/Revaluation	77 560	-	-	77 560
Accumulated impairment losses	-	-	-	-
Reconciliation of carrying value	Historical Buildings R	Paintings and Artefacts R	Other R	Total R
as at 1 July 2012	-	77 560	-	77 560
Cost/Revaluation	77 560			77 560
Correction of error (note 39)	(77 560)	77 560		-
Accumulated impairment losses	-	-	-	-
Acquisitions	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated impairment losses	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Under Construction	-	-	-	-
Other movements	-	-	-	-
as at 30 June 2013	77 560	-	-	77 560
Cost/Revaluation	77 560	-	-	77 560
Accumulated impairment losses	-	-	-	-

uPhongolo Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2014

	Note	2014 R	2013 R
12 Trade and other payables from exchange transactions			
Trade creditors		9 000 222	10 317 571
Payments received in advance		406 004	773 108
Retentions		1 977 142	736 444
Staff leave accrual		3 016 230	2 248 871
Payroll deductions		1 210 847	29 728
Accrued bonus		761 610	669 405
Deposits - other		748 004	709 467
Workmens compensation assurance		1 299 068	1 003 757
Total		18 419 127	16 488 351

The fair value of trade and other payables approximates their carrying amounts.

13 Consumer deposits

Electricity	452 507	511 885
Total consumer deposits	452 507	511 885

No interest is paid on deposits and no guarantees are held in lieu of electricity deposits.

14 Vat Payable

VAT payable	3 875 602	5 665 640
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

15 Provisions

Current provisions

Current portion of bonus provision	312 694	131 285
Total	312 694	131 285

The provision is to provide for performance bonuses of the section 56 employees. Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

Non-current provisions

Provision for rehabilitation of landfill sites	3 519 310	3 861 700
Provision for long-service awards	439 079	336 808
Total Non-Current Provisions	3 958 389	4 198 508

Long service benefits

Employees who achieve 15 years continuous service receive a long service certificate.

Employees who achieve 20 years continuous service receive a long service certificate and 20 days leave, and leave not to be cashed.

Employees who achieve 30 years continuous service receive a long service certificate and 30 days leave, and leave not to be cashed. The relevant staff member to take the leave days.

Employees who achieve 35 years continuous service receive a long service certificate and 35 days leave, and leave not to be cashed. The relevant staff member to take the leave days.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions Service, and may be taken, converted to cash in full or partially or accumulated. The abovementioned leave is only applicable to those employees who achieve the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2014 (2013: 30 June 2013). It has been assumed that the staff turnover rate will be insignificant based on historical data. The provision has not been discounted based on the fact that the interest cost would be insignificant and the fair presentation of the provision would not be materially affected.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
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Landfill site

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the future estimated time of closure. The value of the provision is based on the expected future costs to rehabilitate the site discounted back to the balance sheet date at the annual inflation rate, which was currently 5%. The municipality has an obligation to rehabilitate the landfill site. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the municipality incurs as a result of having used the property during a particular period for landfill purposes.

Rehabilitation costs were calculated based on the following assumptions:

- an annual inflation rate of 5%
- discount rate of 5%
- the area expected to be rehabilitated: 5 hectares
- the estimated closure date of the landfill site is 2019.

The movement in the non-current provision is reconciled as follows: -

Provision for rehabilitation of landfill sites:

Balance at the beginning of year	3 861 700	3 677 810
Contributions to provision	(342 390)	183 890
Balance at the end of year	3 519 310	3 861 700

Provision for long-service awards:

Balance at the beginning of year	336 808	245 764
Contributions to provision	102 271	91 044
Balance at the end of year	439 079	336 808

16 Unspent conditional grants and receipts

Expanded Public Works Programme Grant (EPWP)	-	822 604
Financial Management Grant (FMG)	-	-
Municipal Infrastructure Grant (MIG)	(318 550)	3 680 788
Municipal Systems Improvement Grant (MSIG)	-	-
Integrated national electrification programme Grant (INEP)	(7 016 472)	(13 477 233)
Small Town Improvement Grant	659 139	3 000 000
Imbube Cultural Village Grant	1 492 527	3 000 000
Sub-rank Facility Grant	2 297 692	3 000 000
Flea Market Grant	785 029	3 660 024
Sports Facility Grant	30 536	525 000
Sports Facility Maintenance Grant	75 535	-
Princialisation of Libraries Grant	-	-
Community Library Services Grant	-	-
ZDM Tourism Grant	-	-
Thusong Centre Grant	-	308 923
Pound Grant	490 490	490 490
Planning and Development Grant	47 621	47 621
Administration Capacity Building Grant	205 686	205 686
Synergistic Partnership Grant	123 104	123 104
Strategic Support Grant	93 848	93 848
Integrated Electrification Reds Grant	98 000	98 000
Housing Community Gardens Grant	72 864	72 864
Tourism Candover Grant	290 862	290 862
Municipal Development Planning and Capacity Building Grant	100 000	100 000

Total Unspent Conditional Grants and Receipts	(472 089)	6 042 581
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These amounts are invested in ring-fenced investments until utilised.

Expanded Public Works Programme Grant (EPWP)

Balance unspent at beginning of year	822 604	-
Current year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 822 604)	(177 396)
Conditions still to be met - remain liabilities	-	822 604

The purpose of the grant is to increase job creation efforts through the use of labour-intensive methods.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Financial Management Grant (FMG)			
Balance unspent at beginning of year		-	-
Current year receipts		1 650 000	1 500 000
Conditions met - transferred to revenue		(1 650 000)	(1 500 000)
Conditions still to be met - remain liabilities		-	-

The purpose of this grant is to promote and support reforms in financial management by building capacity to implement the Municipal Finance Management Act (MFMA).

Municipal Infrastrusture Grant (MIG)			
Balance unspent at beginning of year		3 680 788	520 647
Current year receipts		15 514 000	20 371 000
Adjustments and transfers			(520 647)
Conditions met - transferred to revenue		(19 513 338)	(16 690 212)
Conditions still to be met - remain liabilities		(318 550)	3 680 788

This grant is used to construct basic municipal infrastructure to provide basic services for the benefit of poor households. Other than the unspent amount, the conditions of the grant were met. The amount of R8 171 million was withheld by National Treasury as a result of poor performance in the implementation of MIG projects.

Municipal Systems Improvement Grant (MSIG)			
Balance unspent at beginning of year		-	1 078 652
Current year receipts		890 000	800 000
Adjustments and transfers		-	(1 078 652)
Conditions met - transferred to revenue		(890 000)	(800 000)
Conditions still to be met - remain liabilities		-	-

The purpose of this grant is to assist in building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Integrated national electrification programme Grant (INEP)			
Balance unspent at beginning of year		(13 477 233)	(1 341 308)
Current year receipts		14 000 000	-
Withheld by National Treasury		-	(8 500 000)
Conditions met - transferred to revenue		(7 539 239)	(3 635 925)
Conditions still to be met - remain liabilities		(7 016 472)	(13 477 233)

The purpose of this grant is to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electricity infrastructure in order to improve quality of supply.

Small Town Improvement Grant			
Balance unspent at beginning of year		3 000 000	-
Current year receipts		(2 340 861)	3 000 000
Conditions met - transferred to revenue			-
Conditions still to be met - remain liabilities		659 139	3 000 000

The purpose of this grant is to install street lights and high masts in uPhongolo Town.

Imbube Cultural Village Grant			
Balance unspent at beginning of year		3 000 000	-
Current year receipts		-	3 000 000
Conditions met - transferred to revenue		(1 507 473)	-
Conditions still to be met - remain liabilities		1 492 527	3 000 000

The purpose is for the construction of the Imbube Cultural Village to take advantage of the Route 66 as part of investment strategy to boost tourism in uPhongolo.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Sub-rank Facility Grant			
Balance unspent at beginning of year		3 000 000	-
Current year receipts		3 000 000	3 000 000
Conditions met - transferred to revenue		(3 702 308)	-
Conditions still to be met - remain liabilities		2 297 692	3 000 000

The purpose of the grant is construct the sub-rank facility in uPhongolo town.

Flea Market Grant			
Balance unspent at beginning of year		3 660 022	2 417 631
Current year receipts		-	2 700 000
Conditions met - transferred to revenue		(2 874 993)	(1 457 609)
Conditions still to be met - remain liabilities		785 029	3 660 022

This grant is used for the construction of the flea market.

Sports Facility Grant			
Balance unspent at beginning of year		525 000	525 000
Current year receipts		1 200 000	-
Conditions met - transferred to revenue		(1 694 464)	-
Conditions still to be met - remain liabilities		30 536	525 000

The purpose of the grant is to upgrade the sports facility at Ncotshane Township

Princialisation of Libraries Grant			
Balance unspent at beginning of year		-	-
Current year receipts		886 000	440 000
Conditions met - transferred to revenue		(886 000)	(440 000)
Conditions still to be met - remain liabilities		-	-

The purpose of this grant is to subsidise operational costs associated with liabraries.

Community Library Services Grant			
Balance unspent at beginning of year		-	-
Current year receipts		19 000	105 800
Conditions met - transferred to revenue		(19 000)	(105 800)
Conditions still to be met - remain liabilities		-	-

This grant is used to pay the salary of the library Cyber Cadet

ZDM Tourism Grant			
Balance unspent at beginning of year		-	-
Current year receipts		-	100 000
Conditions met - transferred to revenue		-	(100 000)
Conditions still to be met - remain liabilities		-	-

To subsidise costs incurred by the municipality in the promotion of tourism within the municipal area

Thusong Centre Grant			
Balance unspent at beginning of year		308 923	-
Current year receipts		-	400 000
Conditions met - transferred to revenue		(308 923)	(91 077)
Conditions still to be met - remain liabilities		-	308 923

The purpose of this grant is to subsidise operational costs associated with the Thusong Centre.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Pound Grant			
Balance unspent at beginning of year		490 490	808 381
Current year receipts		-	-
Conditions met - transferred to revenue		-	(317 891)
Conditions still to be met - remain liabilities		490 490	490 490
<i>This grant was provided in order to construct a pound in the uPhongolo Municipal area</i>			
Planning and Development Grant			
Balance unspent at beginning of year		47 621	47 621
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		47 621	47 621
<i>The purpose of the grant is to assist the municipality with the implementation of development administration capacity building</i>			
Administration Capacity Building Grant			
Balance unspent at beginning of year		205 686	205 686
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		205 686	205 686
<i>The purpose of the grant is to assist the municipality with the implementation of development administration capacity building</i>			
Synergistic Partnership Grant			
Balance unspent at beginning of year		123 104	123 104
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		123 104	123 104
<i>The purpose of the grant is to facilitate the involvement of the Traditional Leaders in the Council meetings.</i>			
Strategic Support Grant			
Balance unspent at beginning of year		93 848	93 848
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		93 848	93 848
<i>The purpose of the grant is to with the implemention institutional and governance systems.</i>			
Integrated Electrification Reds Grant			
Balance unspent at beginning of year		98 000	98 000
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		98 000	98 000
<i>The purpose of the grant is to assist with the planning for the implemention of reds.</i>			
Housing Community Gardens Grant			
Balance unspent at beginning of year		72 864	72 864
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		72 864	72 864
<i>The purpose of the grant is to assist the community of uPhongolo with the establishment of gardens</i>			
Tourism Candover Grant			
Balance unspent at beginning of year		290 862	290 862
Current year receipts		-	-

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		290 862	290 862

The purpose of the grant is to promote tourism in Candoover

Municipal Development Planning and Capacity Building Grant

Balance unspent at beginning of year		100 000	100 000
Current year receipts		-	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		100 000	100 000

The purpose of the grant is to assist the municipality with capacity development

Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 2 of 2013), the level of government grant funding is expected to increase by R30,1 million over the forthcoming 3 financial years.

17 Borrowings

Annuity Loans		448 400	845 281
Non - current borrowings		448 400	845 281
Current portion transferred to current liabilities		484 777	1 234 524
Annuity Loans		484 777	1 234 524
Other borrowings		-	-
Total borrowings		933 177	2 079 805

Refer to Appendix A for more detail on borrowings.

Certain land and buildings have been secured over the loan. Refer to note 8.

18 Finance lease liability

2014	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	3 058 121	(261 763)	2 796 358
Within two to five years	3 463 580	(416 943)	3 046 637
	6 521 701	(678 706)	5 842 995
Less: Amount due for settlement within 12 months (current portion)			(2 796 358)
			3 046 637
2013			
Amounts payable under finance leases			
Within one year	1 583 842	(171 502)	1 412 340
Within two to five years	1 325 110	(53 291)	1 271 819
	2 908 952	(224 793)	2 684 159
Less: Amount due for settlement within 12 months (current portion)			(1 412 340)
			1 271 819

The instalment sale agreements with Absa Bank for the purchase of machinery and equipment bear interest at the average effective borrowing rate is 8% per annum. The loans are repayable on a monthly basis and the final is due on 30 April 2015. Obligations under finance leases are secured by the lessor's title to the leased asset with a carrying value of R3 643 904 (2013: R3 643 904). Refer to note 8.

The instalment sale agreements with Standard Bank for the purchase of motor vehicles bear interest at the average effective borrowing rate is 8.35% per annum. The loans are repayable on a monthly basis and the final is due on 30 June 2017. Obligations under finance leases are secured by the lessor's title to the leased asset with a cost of R4 117 727 (2013: Rnil). Refer to note 8.

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
19 Property rates			
Actual			
Residential		4 912 482	4 715 903
Commercial		4 654 738	4 709 900
State		1 333 780	-
Other		6 921 138	4 625 452
Total property rates		17 822 138	14 051 255
Property rates - penalties imposed and collection charges		-	-
Total		17 822 138	14 051 255
Valuations			
Residential		576 073 000	425 603 000
Commercial		1 506 397 580	1 572 140 580
State		91 997 000	48 606 000
Municipal		112 401 000	106 664 000
Other		232 558 000	173 622 000
Total Property Valuations		2 519 426 580	2 326 635 580
<p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.</p> <p>A general rate of R0.01109 (2013: R0.01071) is applied to property valuations to determine assessment rates. Rebates of R60 000 are granted to residential and 30% state property owners. Rates are levied on a monthly basis on property owners.</p> <p>Rates are levied on an annual basis with the final date of payment being 31 August 2014 (2013: 31 August). Interest at 10% per annum (2013: 10%) is levied on outstanding rates. No collection charges are levied by the municipality. The new valuation roll will be implemented on 1 July 2014.</p>			
20 Service charges			
Sale of electricity		26 259 696	23 366 449
Refuse removal		6 287 796	5 418 993
Total Service Charges		32 547 492	28 785 442
21 Rental of facilities and equipment			
Rental of facilities		840 104	577 763
Total rentals		840 104	577 763
22 Interest earned - external investments			
Current Account		101 989	52 415
External investments		1 503 356	990 808
Total interest		1 605 345	1 043 223
23 Interest earned - outstanding receivables			
Property rates		2 036 006	1 598 781
Services		2 009 161	1 674 767
Other		9 455	8 448
Total interest		4 054 622	3 281 996
24 Government grants and subsidies			
Operating grants			
Equitable Share		64 393 000	59 786 000
Expanded Public Works Programme Grant (EPWP)		1 822 604	177 396
Financial Management Grant (FMG)		1 650 000	1 500 000
Municipal Systems Improvement Grant (MSIG)		890 000	800 000
Provincialisation of libraries Grant		886 000	545 800
Community Library Services Grant		19 000	-
IDP Participation Grant		200 000	-
Pound Grant		-	317 891

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
ZDM Tourism Grant		-	100 000
Thusong Centre Grant		308 923	91 077
Total operating grants		70 169 527	63 318 164
Capital grants			
Municipal Infrastrusture Grant (MIG)		19 513 338	16 690 212
Integrated National Electrification Programme Grant (INEP)		7 539 239	3 635 925
Small Town Development Grant		2 340 861	-
Flea Market Grant		2 874 993	1 457 609
Sub-Rank Facility Grant		3 702 308	-
Imbube Cultural Village Grant		1 507 473	-
Sports Facility Grant		1 768 929	-
Total capital grants		39 247 141	21 783 746
Total Government Grant and Subsidies		109 416 668	85 101 910
Equitable Share			
Transfers received		64 393 000	59 786 000
Equitable Share		64 393 000	59 786 000

This grant is an unconditional grant which, In terms of the Constitution, is partly used to subsidise the provision of basic services to indigent community members. An amount of R1,996 million was withheld by National Treasury against the equitable share due to unspent municipal infrastructure grant in 2011/12.

25 Other Income, Public Contributions And Donations

Other income

NPA fees	844 979	706 038
Transport subsidy	228 530	440 640
Sign boards	71 464	94 616
Burial fees	91 746	117 431
Building plans	60 436	50 802
Tender document fees	127 275	44 008
Certificate clearance and validation	20 075	23 096
Dumping fees	15 845	13 702
Electricity connection and reconnection fees	279 368	-
Other income	103 180	469 130
Total Other Income	1 842 898	1 959 463

26 Employee Related Costs

Employee related costs - Salaries and Wages	26 614 448	23 607 760
Employee related costs - Contributions for UIF, pensions and medical aids	4 258 544	3 443 493
Travel, motor car, accommodation, subsistence and other allowances	1 253 109	1 443 133
Housing benefits and allowances	27 724	30 000
Overtime payments	1 540 615	2 177 674
Performance and other bonuses	1 997 186	1 472 045
Other employee related costs	681 438	1 671 061
Skills development levy	296 466	336 487
Total	36 669 530	34 181 653

There were no advances to employees. The municipality does not give loans to employees.

Remuneration of the Municipal Manager

Annual Remuneration	828 052	266 687
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	44 045	6 693
Contributions to UIF, Medical and Pension Funds	-	595
Total	872 097	273 975

Remuneration of the Chief Finance Officer

Annual Remuneration	752 065	689 353
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	69 425	7 948
Contributions to UIF, Medical and Pension Funds	-	398

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Total		821 490	697 699
Remuneration of Technical Manager			
Annual Remuneration		618 726	277 890
Performance- and other bonuses		-	-
Travel, motor car, accommodation, subsistence and other allowances		31 969	4 832
Contributions to UIF, Medical and Pension Funds		-	892
Total		650 695	283 614
Remuneration of Community Services Manager			
Annual Remuneration		515 793	475 304
Performance- and other bonuses		-	6 909 158
Travel, motor car, accommodation, subsistence and other allowances		50 527	257 403
Contributions to UIF, Medical and Pension Funds		-	1 564
Total		566 320	7 643 429
Remuneration of Corporate Services Manager			
Annual Remuneration		-	423 731
Performance- and other bonuses		-	-
Travel, motor car, accommodation, subsistence and other allowances		-	399 824
Contributions to UIF, Medical and Pension Funds		-	1 564
Total		-	825 119
27 Remuneration of Councillors			
Mayor		384 501	348 290
Deputy Mayor		316 008	280 982
Speaker		576 812	489 516
Executive Committee Members		893 953	780 992
Councillors		4 832 683	4 096 853
Councillors' pension and medical aid contributions		-	-
Total Councillors' Remuneration		6 909 158	6 093 833
Councillors' remuneration comprises:			
Councillors' remuneration		5 112 478	4 243 521
Motor vehicle allowance		1 486 275	1 429 803
Cellphone allowance		310 405	420 509
Other allowance		-	-
Total Councillors' Remuneration		6 909 158	6 093 833
In-kind Benefits			
The Mayor, Deputy Mayor and Executive Committee Members are not full time. Only the Speaker is full-time. The Mayor and Speaker are provided with an office and secretarial support at a cost to the Council.			
The Mayor has use of the Council owned vehicle for official duties. The Mayor has 2 and the Speaker 3 contracted bodyguards.			
28 Depreciation and amortisation			
Property, plant and equipment		4 588 743	3 166 211
Intangible assets		22 877	22 873
Total Depreciation and Amortisation		4 611 620	3 189 084
29 Finance costs			
Borrowings		471 172	764 688
Suppliers		29 530	-
Total Finance Costs		500 702	764 688
30 Bulk purchases			
Electricity		20 418 950	18 858 816
Total Bulk Purchases		20 418 950	18 858 816

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Electricity distribution losses			
Distribution losses (units)		3 722 693	5 614 051
Percentage electricity distribution losses		11.00%	18.50%
The municipality purchased 30 704 024 units (2013: 30 274 396 units) from Eskom but only sold 26 981 331 (2013: 24 660 345 units) to consumers. This represents a loss of 3 722 693 units (2013: 5 614 051 units) translating to a percentage loss of 11% (2013: 18.5%).			
31 Contracted services			
Contracted services for:			
Security services		3 490 962	2 753 803
Financial and ICT systems support		1 597 035	1 128 135
Value-Added Tax services		812 963	-
Refuse removal and landfill site maintenance		4 349 915	3 654 787
Outsourced electricity services		433 885	488 248
Maintenance of parks and gardens		1 678 678	1 132 358
		12 435 412	9 151 460
32 Grants and subsidies paid			
Free basic services to indigents		2 308 512	2 690 716
Rebates on property rates and services rendered		-	-
		2 308 512	2 690 716
33 General expenses			
Advertising		466 425	666 905
Audit committee fees		107 437	149 108
Audit fees		1 946 392	2 426 324
Bank charges		107 667	102 757
Cleaning		145 449	211 017
Consulting and professional fees		3 025 050	2 853 120
Electricity and refuse		981 401	502 333
Entertainment		294 051	176 527
Fuel and oil		1 000 001	1 054 998
Hire of equipment		1 348 557	366 650
Insurance		943 867	1 273 435
Job creation - EPWP		2 506 462	-
Legal expenses		218 434	182 297
Licence fees		539 244	576 380
Postage and courier		45 099	48 893
Printing and stationery		999 894	589 639
Public Participation		2 545 480	2 049 423
Rental of office equipment		788 599	742 198
Security		71 635	97 275
Shared services		313 312	
Subscriptions and membership fees		465 053	17 254
Telephone and fax		753 443	741 411
Training		449 660	235 738
Transport		430 141	176 128
Travel and subsistence		3 462 901	2 596 647
Uniforms and overalls		313 244	82 709
Ward Upliftment		2 787 193	2 435 325
Water and Sanitation		112 351	154 718
Other		2 417 666	974 975
		29 586 108	21 484 183
34 Gains/(loss) on sale of assets			
Property, plant and equipment		-	-
Investment property		-	-
Total Gain / (Loss) on Sale of Assets		-	-
35 Impairment loss			
Property, plant and equipment		45 241	396 816
Total Impairment loss		45 241	396 816

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
36 Profit/(loss) on fair value adjustment			
Property, plant and equipment		467 187	-
Investment property carried at fair value		-	101 475
Total Profit on Fair Value Adjustment		467 187	101 475
37 Cash generated by operations			
Surplus/(deficit) for the year		41 598 940	33 639 389
Adjustment for:-			
Depreciation and amortisation		4 611 620	3 189 084
Interest income		-5 659 967	-4 325 219
(Gain) / loss on sale of assets		-	-
Contribution to provisions - non-current		770 082	576 520
Debt impairment		7 337 293	2 537 125
Finance costs		500 702	764 688
Fair value adjustments		-467 187	-101 475
Impairment loss / (reversal of impairment loss)		45 241	396 816
Inventories written down		10 804	30 623
Other non-cash item		-1 257 081	4 778 558
Operating surplus before working capital changes:		47 490 447	41 486 109
(Increase)/decrease in inventories		-89 136	-5 129
(Increase)/decrease in revenue received in advance		24 937	-1 606 209
(Increase)/decrease in exchange transactions		-291 797	-4 663 008
(Increase)/decrease in non-exchange transactions		-8 249 653	-4 851 241
(Increase)/decrease in prepayments		-160 181	-427 500
Increase/(decrease) in conditional grants and receipts		-6 514 670	597 298
Increase/(decrease) in exchange payables		1 930 776	-2 043 785
Increase/(decrease) in consumer deposits		-59 378	-
Increase/(decrease) in VAT payable		-1 790 038	1 431 916
Cash generated by/(utilised in) operations		32 291 307	29 918 451
38 Cash and cash equivalents			
Cash and cash equivalents included in the cash flow statement comprise the following:			
Bank balances and cash		13 602 845	23 401 728
Net cash and cash equivalents		13 602 845	23 401 728

There was no bank overdraft outstanding at the end of the financial year.

39 Correction of prior period errors

The comparatives for 2012/13 have been restated in respect of the following errors:

Property, plant and equipment

In the previous set of financial statements for the year ended 30 June 2013, the figure indicated under property, plant and equipment, was incorrectly stated as a result of repairs and maintenance recognised as property, plant and equipment as well as the duplication of electricity infrastructure expenditure in 2011/12.

The comparative amount has been restated as follows:

Closing balance as at 30 June 2013	124 399 699
Correction of error: Historical cost: Infrastructure	(2 980 034)
Correction of error: IT Equipment	(31 570)
Correction of error: Plant and machinery	24 364
Restated balance	121 412 459

Intangibles

After the compilation and submission of the annual financial statements for the year ended 30 June 2013, it became apparent that the intangibles were

Closing balance as at 30 June 2013	72 432
Correction of error: Intangibles	31 665

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Restated balance			104 097

After the compilation and submission of the annual financial statements for the year ended 30 June 2013, it became apparent that the items listed

Statement of Financial Performance:

Other income:

Other income previously reported	1 961 325
Correction of error: Repairs and maintenance	(1 874)
Effect on financial performance	1 959 451

Repairs and maintenance:

Repairs and maintenance previously reported	5 491 098
Correction of error: General expenses misallocated	(3 659 311)
Correction of error: Repairs and maintenance capitalised	1 535 285
Correction of error: Repairs and maintenance of sidewalks not accrued	120 718
Correction of error: Expenditure shown as revenue	1 874
Reclassification: Distribution network repairs misallocated to general expenses	396 602
Effect on financial performance	3 886 266

Bulk electricity purchases:

Bulk purchases previously reported	19 038 885
Correction of error: Electricity charges misallocated	(180 069)
Effect on financial performance	18 858 816

General expenses:

General expenses previously reported	17 963 906
Correction of error: Electricity charges	180 069
Reclassification: Distribution network repairs	(396 601)
Correction of error: General expenses misallocated	3 659 311
Correction of error: General expenses not accrued	108 121
Reclassification: Obsolete inventory	(30 623)
Effect on financial performance	21 484 183

After all corrections of errors and changes in accounting policies are accounted for, the restated accumulated surplus as at 30 June 2013, will be as follows:

Statement of Changes in Net Assets

Closing balance as at 30 June 2013	232 284 735
Additional expenses not accrued in previous year and included in surplus for the year	(1 069 512)
Correction of error	(2 753 857)
Restated balance	228 461 366

40 Change in estimate

In the previous financial year ended 30 June 2013, the debt impairment was computed based on the results of the screening process undertaken on all consumer debtors. This procedure was not in compliance with the debt policy of the municipality. In the current period management have revised the the 2012/13 provision based on the debt policy. The effect of this revision has increased the debt provision for the current and future periods by R123 510.

Revision of debt provision for the year in terms of policy	35 994 900
Less: Amount provided not in terms of policy	(35 871 390)
Change in estimate	123 510

41 Unauthorised, irregular, fruitless and wasteful Expenditure

Unauthorised expenditure

Reconciliation of unauthorised expenditure

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Opening balance			
Unauthorised expenditure current year:			
Executive Council		-	1 597 072
Corporates Services		2 252 633	318 111
Sport & Recreation		285 787	-
Planning & Development		287 689	12 377
Waste Management Services		4 331 202	-
Other		-	84 304
Unauthorised expenditure awaiting authorisation		7 157 311	2 011 864

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions not budgeted for. This unauthorised expenditure will be tabled in a special adjustment budget when the annual report is tabled accordance with section 23(6) of the Budget and Reporting Regulations. Despite the overspending on the above votes, the total expenditure did not overspend.

Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance -	184 923	-
Fruitless and wasteful expenditure current year	284 475	184 923
Condoned or written off by Council	(232 718)	-
To be recovered – sundry debtor (see note 6)	(236 680)	-
Fruitless and wasteful expenditure awaiting condonement	-	184 923

Incident	Disciplinary steps/criminal proceedings
Interest on late payments	Legal action has been instituted against the suppliers concerned

Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	22 667 568	12 019 498
Irregular expenditure current year	10 697 245	10 648 070
Condoned or written off by Council	(33 364 813)	-
Transfer to receivables for recovery – not condoned	-	-
Irregular expenditure awaiting condonement	-	22 667 568

Incident	Disciplinary steps/criminal proceedings
<i>Non-adherence to Supply Chain</i>	<i>None</i>

The councillors referred the irregular expenditure to MPAC for investigation.

42 Supply chain management regulations - Other Matters

Paragraph 13(c)(iii) of Government Gazette No. 27636 issued in May 2005 indicates that a supply chain management policy must state that a municipality may not consider a written quotation or bid unless the provider who submitted a quotation or bid has indicated whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

Paragraph 45(a), (b) and (c) of Government Gazette No. 27636 issued in May 2205 states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2,000 to a person who is a spouse, child, parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.

Awards to employees from other organs of state

Isibili Developments - KZN Department of Transport	-	-
Ngelizwe Trading - KZN Department of Health	126 540	-
Liquido Trading - KZN Department of Education	246 900	-
	373 440	-

43 Additional disclosures in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	-	-
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uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Council subscriptions		475 000	427 500
Amount paid - current		(475 000)	(427 500)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		-	-

Audit fees

Opening balance		-	-
Current year audit fee		1 917 673	2 418 221
Amount paid - current year		(1 917 673)	(2 418 221)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		-	-

The balance unpaid represents the audit fee for an interim audit conducted during May and June 2014 and is payable by 31 July 2014.

VAT payable

VAT output payable is shown in note 18. All VAT returns have been submitted by the due date throughout the year.

The municipality is on the payment basis of VAT as a result VAT payable represents future liability which will become payable once the receivables have been collected.

The municipality has withheld the VAT refundable amounting to R4 669 165 at 30 June 2014. Further details in this regard are disclosed in note 48.

PAYE and UIF

Opening balance		-	-
Current year payroll deductions		5 527 552	4 738 979
Amount paid - current year		(5 069 962)	(4 738 979)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		457 590	-

The balance represents PAYE and UIF deducted from the June 2014 payroll. These amounts were paid during July 2014

Pension and Medical Aid Deductions

Opening balance		-	-
Current year payroll deductions and Council Contributions		6 041 065	4 814 619
Amount paid - current year		(5 510 637)	(4 814 619)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		530 428	-

The balance represents pension and medical aid contributions deducted from employees in the June 2014. These amounts were paid during July 2014.

Councillor's arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at: -

	Total R	Outstanding less than 90 days R	Outstanding more than 90 days R
as at 30 June 2014			
Cllr N J Mkhwanazi	926	592	334
Cllr K E Nxumalo	13 176	1 102	12 074
Cllr L Z Nxumalo	116	116	-
Cllr A Z Thabede	1 777	1 777	-
Cllr V P Mvelase	745	745	-
Cllr C N Mavundla	130	130	-
Total Councillor Arrear Consumer Accounts	16 870	4 462	12 408

as at 30 June 2013

Cllr N J Mkhwanazi	13 266	947	12 319
Cllr K E Nxumalo	17 885	696	17 189

uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Cllr L Z Nxumalo	2 929	219	2 710
Total Councillor Arrear Consumer Accounts	34 080	1 862	32 218

44 Capital commitments

Commitments in respect of capital expenditure

Approved and contracted for

	11 867 527	29 380 786
Infrastructure	6 867 430	17 680 786
Community	5 000 097	11 700 000
Other		

Approved but not yet contracted for

	148 343 950	166 649 300
Infrastructure	116 719 600	125 125 050
Community	9 361 400	5 451 750
Other	22 262 950	36 072 500

Total	160 211 477	196 030 086
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This expenditure will be financed from:

External Loans	13 215 000	17 543 000
Government Grants	137 948 527	173 757 586
Own resources	9 047 950	4 729 500
Total source of funds	160 211 477	196 030 086

45 Operating leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee

Within one year	10 800	259 448
In the second to fifth year inclusive	7 200	-
After five years	-	-
Total	18 000	259 448

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its equipment. Leases are negotiated for an average term of two years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases – as lessor

Minimum lease payments due

Within one year	-	-
In second to fifth year inclusive	-	-
After five years	-	-
Total	-	-

Operating Leases consists of the following:

Certain of the municipality's property is held to generate rental income. Rental income recognised from major operating leases has not been accounted for on the straight-line basis over the lease terms because the lease agreements had expired and in the process of being renewed. There are contingent rents receivable.

46 Traffic fines

Accrued fines	455 049	362 040
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uPhongolo Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2014

	Note	2014 R	2013 R
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The recoverability of traffic fines is uncertain. 6.15% of the total outstanding fines are considered recoverable, in accordance with a 5 year trend analysis, and have been accrued.

47 Employee benefit Obligation

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Thus, some of the entities defined benefit plans are not treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. These are listed under the defined contribution plan heading as a GRAP 25 Exception.

This is in line with the exemption in GRAP 25 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

Pension benefits

The Municipality's personnel are members of one of the pension funds listed below:

- KwaZulu Natal Joint Municipal Pension Fund
- Municipal Gratuity Fund
- Municipal Employees Pension Fund
- Government Employees Pension Fund

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans. An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2014 actuarial valuations have not yet been released.

Superannuation Fund

The interim valuation carried out on the Superannuation Fund as at 31 March 2013 reflected:

- The memorandum account in respect of pensioners was fully funded.
- The liability in respect of active members was 96.2% funded.

Retirement and Provident Fund

The latest statutory valuation of the Retirement/Provident Fund (defined contribution) as at 31 March 2009 and the interim valuation as at 31 March 2013. revealed that:

- The memorandum account in respect of pensioners was fully funded.
- The liability in respect of active members was 86% funded.

The following are defined benefit plans:

Long service benefit

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	336 809	245 764
Service cost	48 441	36 584
Interest cost	26 103	18 024
Actual gains or losses	27 727	47 330
Benefits paid	-	(10 893)
Total contributions expensed to the Statement of Financial Performance	439 080	336 809

The amounts recognised in the statement of financial performance

Service cost	48 441	36 584
Interest	26 103	18 024
Actuarial (gain)/loss recognised	27 727	47 330
Amount recognised in the statement of financial performance	102 271	101 938

Principal actuarial assumptions:

Assumptions used at the reporting date:

uPhongolo Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2014

	Note	2014 R	2013 R
Discount rate used		9.00%	7.75%
Salary inflation		8.00%	6.75%

An actuarial valuation has been performed of the municipality's liability for long service benefits relating to vested leave benefits to which employees become entitled upon completion of the minimum of ten year's service. The provision is utilised when eligible employees receive the value of the vested benefits.

The fund benefit liability as at 30 June 2014 has been discounted at the rate determined by using the yield curve determined by the Bond Exchange of South Africa.

Medical benefits	2014	2013	2012	2011
Present value of funded obligations	2 502 511	2 600 668	2 284 378	2 148 382
Total present value of obligations	2 502 511	2 600 668	2 284 378	2 148 382
Liability for defined benefit obligations in the statement of financial position	2 502 511	2 600 668	2 284 378	2 148 382

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
Opening Balance	2 600 669	2 284 379
Interest costs	195 246	165 889
Actuarial losses/(gains)	(130 681)	295 440
Benefits paid	(162 722)	(145 039)
Closing Balance	2 502 512	2 600 669

Expenses and income recognised in surplus for the period

Current service costs	48 441	36 854
Interest costs	221 349	183 913
Actuarial gains and losses	(102 954)	342 769
	166 836	563 536

Principal actuarial assumptions:

Discount rate used	9.00%	7.75%
Medical aid inflation	8.00%	7.25%

Included in defined contribution plan information is the above plan which is a multi-year employer fund and is a defined benefit plan, but due to the fact sufficient information is not available to enable the municipality to account for the plan as a defined benefit plan. The municipality accounted for this plan as a defined contribution plan.

48 Contingent liabilities

Operation of unlicensed waste disposal site:

The Municipality operates an unlicensed waste disposal site in contravention of the requirements of a waste management license or permit and the norms and standards in terms of Section 67(1)(f) and (h) of the National Environmental: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and Section 29(4) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989), in that appropriate leachate control was not implemented and thus the groundwater at the site infiltrated and polluted. At year end there was a probable contingent liability the outcome of which was unknown.

Non-implementation of wage curve agreement

Employees were not paid according to the wage scales and rates in the wage curve agreement and/or receive 9 months retrospective increases. As a result the amount of the obligation could not be measured with sufficient reliability as at 30 June 2014.

Claim for contract fees

The Municipality is being sued by a consultant due to differences in the interpretation of the service level agreement with regard to the payment of fees. Council is contesting the claim based on legal advice. At year end there was a probable contingent liability the outcome of which was unknown.

Claim for breach of contract

uPhongolo Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2014

	Note	2014 R	2013 R
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Mayibuye Earthworks cc - this is a claim for damages in the amount of R2 062 915.34 excluding VAT against the municipality for breach of contract. The matter is defended by Council's attorneys.

Claim for use of private property without agreement

The Impala Water Users Association - this is a claim for the amount of R5 606.11 for the use of private property by the municipality without entering into a formal lease agreement with the owner of the property.

Claim by Sars for underpayment of VAT and PAYE

Sars has issued a notice of assessment in respect of the underpayment of VAT and Paye for the period 2008 to 2012 based on the results of its audit finding. The amount of the alleged liability is R6 297 860. The municipality has lodged an objection to the finding the outcome of which was still pending as at 30 June 2014. Sars has withheld and set-off VAT refunds amounting to R4 669 165 against this claim.

49 Contingent asset

Lessor - rental agreements

The municipal has submitted all expired lease agreements to its legal advisors to determine the recovery of rentals in arrear. These lease agreements expired in the previous financial years and were never renewed. The recoverable amount cannot be estimated accurately.

50 In-kind donations and assistance

The Municipality received the following in-kind donations and assistance:

Description

Department of Cooperative Governance and Traditional Affairs

- Review of year end procedures and annual financial statements for compliance with GRAP.
- Monthly review of reconciliations and compliance with MFMA and SCM Regulations
- Development of Revenue Enhancement Strategy

Provincial Treasury

51 Related parties

Other than the related parties indicated in note 32 and 33, the municipality did not have any other related parties. No transactions occurred with related parties that were not at arm's length or not in the ordinary course of business.

52 Events after the reporting date

There were no events that occurred subsequent to year end that materially affected fair presentation of annual financial statements as at 30 June 2014.

53 Key sources of estimation uncertainty and judgments

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
- Present value of defined benefit obligation
- Fair value of plan assets
- Provision for doubtful debts
- Impairment of assets
- Provision for long-term service award

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of assets
- Provisions
- Other

54 Risk Management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

uPhongolo Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2014

	Note	2014 R	2013 R
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Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Amounts owing consumers debtors for rates and services are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Capital risk management

The municipality's objective when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 17 - 18, cash and cash equivalents disclosed in note 3, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately all of its borrowings in fixed rate instruments where possible.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Long term annuity

55 Restatement of comparative information

After the compilation of the financial statements for the year ended 30 June 2013, it became apparent that certain items of income and expenditure were incorrectly classified as shown below:

Statement of Financial Position:

Trade and other receivables from exchange transactions previously reported	34 173 962
Reclassification: Property rates	(29 039 901)
Reclassification: Accrued electricity debtors	932 016
Effect on financial position	6 066 077

Statement of Financial Position:

Trade and other receivables from non-exchange transactions previously reported	1 721 555
Reclassification: Prepayments	(427 500)
Reclassification: Accrued electricity debtors	(932 016)
Reclassification: Property rates	29 039 901
Reclassification: Outstanding deposit	40 415
Effect on financial position	29 442 355

Statement of Financial Position:

Prepayments previously reported	-
Reclassification: Prepayments	427 500
Effect on financial position	427 500

Statement of Financial Position:

Trade and other payables from exchange transactions previously reported	15 820 827
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uPhongolo Local Municipality

Notes to the Annual Financial Statements
for the year ended 30 June 2014

	Note	2014 R	2013 R
Reclassification: Consumer deposits			(511 886)
Reclassification: Outstanding deposit			40 414
Reclassification: Bonus provision for section 56 employees			(131 286)
Reclassification: Long service benefits			(336 808)
Effect on financial position			14 881 261
Statement of Financial Position:			
Current provisions previously reported			-
Reclassification: Bonus provision for section 56 employees			131 285
Effect on financial position			131 285
Statement of Financial Position:			
Non-current provisions previously reported			3 861 700
Reclassification: Long service benefits			336 808
Effect on financial position			4 198 508
Statement of Financial Position:			
Employee related costs previously reported			33 774 320
Reclassification: General expenses (backpay)			407 333
Effect on financial performance			34 181 653
Contribution to provisions previously reported			983 855
Reclassification: General expenses (backpay)			(407 335)
Effect on financial performance			576 520

56 Going concern

Attention is drawn to the fact that at 30 June 2014, the municipality had cash resources of R13 602 845 and current liabilities of R25 868 976 . This meant that the municipality was not in a position to meet its current obligations as at that date.

57 Comparative with the budget

The comparison of the Municipality's actual financial performance with that budgeted is set out on page 9

uPhongolo Local Municipality

APPENDIX A

SCHEDULE OF EXTERNAL LOANS

as at 30 June 2014

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2013	Received during the period	Redeemed / written off during the period	Balance at 30 June 2014	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
			R	R	R	R	R	R
LONG-TERM LOANS								
First National Bank	4000014520209	11/06/2014	675 077	75 589	-750 666	-	-	-
Amalgamated Banks of South Africa (Absa)	8061728158	31/08/2015	1 330 058	87 896	-484 777	933 177	-	-
Development Bank of South Africa (DBSA)	61002545	30/06/2013	74 669	18 965	-93 634	-	-	-
Total long-term loans			2 079 804	182 450	(1 329 077)	933 177	-	-

This schedule does not form part of the annual financial statements and is presented for additional information purposes only

uPhongolo Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2014

	Cost / Revaluation					Accumulated Depreciation and Accumulated Impairment					Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R
Land											
Land	17 176 243	-	-	-	17 176 243	-	-	-	-	-	17 176 243
Landfill Sites	948 179	-	-	-	948 179	-	-	-	-	-	948 179
	18 124 422	-	-	-	18 124 422	-	-	-	-	-	18 124 422
Buildings	14 005 553	-	-	-	14 005 553	(6 679 099)	(419 863)	-	(12 623)	(7 111 585)	6 893 968
Infrastructure											
Roads & Stormwater	58 847 556	-	-	-	58 847 556	(9 664 443)	(3 077 039)	-	(1 757)	(12 743 239)	46 104 317
Electricity Mains	4 011 881	-	-	-	4 011 881	(1 341 628)	(168 554)	-	(658)	(1 510 840)	2 501 041
Under construction	37 264 951	-	-	37 683 180	74 948 131	-	-	-	-	-	74 948 131
	100 124 388	-	-	37 683 180	137 807 568	(11 006 071)	(3 245 593)	-	(2 415)	(14 254 079)	123 553 489
Other Assets											
Furniture & Fittings	2 622 772	452 720	-	-	3 075 492	(1 737 553)	(188 955)	-	-	(1 926 508)	1 148 984
Machinery & Equipment	6 317 846	147 610	-	-	6 465 456	(1 974 098)	(450 173)	-	(30 203)	(2 454 474)	4 010 982
Motor Vehicles	2 172 829	4 201 675	-	-	6 374 504	(983 096)	(181 688)	-	-	(1 164 784)	5 209 720
Computer Equipment	1 070 884	225 709	-	-	1 296 593	(646 321)	(102 471)	-	-	(748 792)	547 801
	12 184 331	5 027 714	-	-	17 212 045	(5 341 068)	(923 287)	-	(30 203)	(6 294 558)	10 917 487
Total	144 438 694	5 027 714	-	37 683 180	187 149 588	(23 026 238)	(4 588 743)	-	(45 241)	(27 660 222)	159 489 366

uPhongolo Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
for the year ended 30 June 2014

	Cost / Revaluation					Accumulated Depreciation					Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R
Land											
Land	16 747 739	-	428 504	-	17 176 243	-	-	-	-	-	17 176 243
Landfill Sites	948 179	-	-	-	948 179	-	-	-	-	-	948 179
	17 695 918	-	428 504	-	18 124 422	-	-	-	-	-	18 124 422
Buildings	12 853 302	-	1 152 251	-	14 005 553	(6 195 492)	(427 011)	-	(56 596)	(6 679 099)	7 326 454
Infrastructure											
Roads & Stormwater	59 107 647	-	(260 091)	-	58 847 556	(7 914 359)	(1 750 084)	-	-	(9 664 443)	49 183 113
Electricity Mains	4 011 881	-	-	-	4 011 881	(1 212 608)	(129 020)	-	-	(1 341 628)	2 670 253
Under construction	23 892 312	-	(5 252 698)	18 625 337	37 264 951			-	-	-	37 264 951
	87 011 840	-	(5 512 789)	18 625 337	100 124 388	(9 126 967)	(1 879 104)	-	-	(11 006 071)	89 118 317
Other Assets											
Furniture & Fittings	2 421 178	205 254	(3 660)	-	2 622 772	(1 546 935)	(161 641)		(28 977)	(1 737 553)	885 219
Machinery & Equipment	6 149 532	143 950	24 364	-	6 317 846	(1 236 256)	(468 856)	-	(268 986)	(1 974 098)	4 343 748
Motor Vehicles	2 172 829	-		-	2 172 829	(796 470)	(153 182)		(33 444)	(983 096)	1 189 733
Computer Equipment	844 984	257 470	(31 570)	-	1 070 884	(561 088)	(76 420)	-	(8 813)	(646 321)	424 563
	11 588 523	606 674	(10 866)	-	12 184 331	(4 140 749)	(860 099)	-	(340 220)	(5 341 068)	6 843 263
Total	129 149 583	606 674	(3 942 900)	18 625 337	144 438 694	(19 463 208)	(3 166 214)	-	(396 816)	(23 026 238)	121 412 456

uPhongolo Local Municipality
APPENDIX C
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
as at 30 June 2014

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Executive & Council	2 497 955				2 497 955	(198 020)	(37 791)		(235 811)	2 262 144
Budget and Treasury	2 690 377				2 690 377	(871 598)	(151 164)		(1 022 762)	1 667 615
Corporate Services	30 282 217	3 706 962			33 989 179	(7 207 639)	(105 708)		(7 313 347)	26 675 832
Community & Social Services	1 728 087				1 728 087	(677 413)	(432 486)		(1 109 899)	618 188
Sport & Recreation	23 255				23 255	(125 312)	(10 247)		(135 559)	(112 304)
Public Safety	378 124				378 124	(966 087)	(96 608)		(1 062 695)	(684 571)
Planning & Development	5 765 566	147 610			5 913 176	(1 974 098)	(119 486)		(2 093 584)	3 819 592
Road Transport	58 847 556				58 847 556	(9 664 443)	(3 078 796)		(12 743 239)	46 104 317
Electricity	4 011 881				4 011 881	(1 341 628)	(169 212)		(1 510 840)	2 501 041
Waste Management	948 725	1 173 142			2 121 867	-	(432 486)		(432 486)	1 689 381
Under Construction	37 264 951		37 683 180		74 948 131	-			-	74 948 131
Total	144 438 694	5 027 714	37 683 180	-	187 149 588	(23 026 238)	(4 633 984)	-	(27 660 222)	159 489 366

uPhongolo Local Municipality
APPENDIX D
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2014

2 013				2 014		
Actual Income	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R		R	R	R
9 777 475	15 372 621	(5 595 146)	Executive & Council	12 554 436	15 561 691	(3 007 255)
		-	Municipal Manager	2 876 050	2 827 640	48 410
39 731 770	19 984 000	19 747 770	Budget and Treasury	39 790 197	19 776 818	20 013 379
11 081 650	14 422 759	(3 341 109)	Corporate Services	13 301 497	15 983 445	(2 681 948)
4 545 310	4 404 528	140 782	Community & Social Services	3 497 651	4 516 896	(1 019 245)
1 502 611	2 181 569	(678 958)	Sport & Recreation	5 780 125	3 558 826	2 221 299
6 845 065	7 332 813	(487 748)	Public Safety	5 871 891	8 249 140	(2 377 249)
22 221 336	6 037 894	16 183 442	Planning & Development	34 859 467	10 946 166	23 913 301
6 244 215	8 456 866	(2 212 651)	Road Transport	7 939 829	12 096 263	(4 156 434)
27 728 118	20 312 650	7 415 468	Electricity	36 175 601	24 678 592	11 497 009
5 996 301	3 907 499	2 088 802	Waste Management	7 095 710	9 904 387	(2 808 677)
2 062 377	1 683 640	378 737	Other	901 070	944 720	(43 650)
137 736 228	104 096 839	33 639 389		170 643 524	129 044 584	41 598 940
-	-	-	Less: Inter-Department Charges	-	-	-
137 736 228	104 096 839	33 639 389	Total	170 643 524	129 044 584	41 598 940

This schedule does not form part of the annual financial statements and is presented for additional information purposes only

uPhongolo Local Municipality

APPENDIX E

BUDGET FINANCIAL PERFORMANCE BY MUNICIPAL VOTE

for the year ended 30 June 2014

	2 013	2 013	2 013		2 014	2 014	2 014
	Final Budget	Actual	Variance		Final Budget	Actual	Variance
Revenue							
Executive & Council	11 602 235	7 663 771	3 938 464		12 916 000	12 554 436	361 564
Municipal Manager	2 484 318	2 113 704	370 614		2 759 000	2 876 050	(117 050)
Budget and Treasury	29 725 968	39 729 896	(10 003 928)		39 167 579	39 790 196	(622 617)
Corporate Services	12 603 406	11 081 650	1 521 756		13 935 334	13 301 497	633 837
Community & Social Services	4 943 513	4 545 310	398 203		3 748 997	3 497 651	251 346
Housing	-	317 891	(317 891)		444 000	430 651	13 349
Sport & Recreation	2 556 348	1 502 611	1 053 737		3 450 688	5 780 125	(2 329 437)
Public Safety	6 998 736	6 845 065	153 671		7 724 136	5 871 891	1 852 245
Planning & Development	36 576 810	22 406 915	14 169 895		46 042 769	34 859 468	11 183 301
Road Transport	7 995 658	7 255 742	739 916		10 024 785	7 939 829	2 084 956
Electricity	24 424 919	27 728 118	(3 303 199)		40 607 786	36 175 601	4 432 185
Waste Management	5 833 559	5 996 301	(162 742)		6 784 470	7 095 710	(311 240)
Other	489 734	547 380	(57 646)		537 497	470 418	67 079
	146 235 204	137 734 354	8 500 850	-	188 143 041	170 643 523	17 499 518
Expenditure							
Executive & Council	12 595 081	14 192 153	(1 597 072)		18 891 546	15 561 691	3 329 855
Municipal Manager	2 749 599	1 180 468	1 569 131		3 015 631	2 827 640	187 991
Budget and Treasury	19 541 877	18 912 153	629 724		20 339 575	19 776 817	562 758
Corporate Services	14 105 109	14 423 220	(318 111)		13 730 812	15 983 445	(2 252 633)
Community & Social Services	4 813 587	4 404 528	409 059		5 882 378	4 516 896	1 365 482
Housing	400 000	274 199	125 801		-	-	-
Sport & Recreation	2 396 637	2 181 569	215 068		3 273 039	3 558 826	(285 787)
Public Safety	7 250 183	7 332 813	(82 630)		8 844 585	8 249 140	595 445
Planning & Development	6 844 949	6 857 326	(12 377)		10 658 477	10 946 166	(287 689)
Road Transport	10 378 043	8 456 866	1 921 177		12 657 176	12 096 263	560 913
Electricity	22 459 801	20 312 650	2 147 151		25 353 705	24 678 592	675 113
Waste Management	5 693 340	3 907 499	1 785 841		5 573 185	9 904 387	(4 331 202)
Other	505 705	590 009	(84 304)		1 466 182	944 720	521 462
	109 733 911	103 025 453	6 708 458	-	129 686 291	129 044 583	641 709

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uPhongolo Local Municipality
APPENDIX F
UNSPENT CONDITIONAL GRANTS
as at 30 June 2014

Name of Grant	Unspent portion 2012/13 financial statements	Adjustments and Transfers	Receipts during the year	Expenditure during the year	Unspent portion 2013/14 financial statements	Grants and Subsidies delayed / withheld	Reason for delay withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non- compliance
	R	R	R	R	R				
Flea Market Grant	3 660 024			(2 874 993)	785 031	No	N/a	Yes	N/a
Municipal Infrastructure Grant	3 680 788		15 514 000	(19 513 339)	(318 551)	Yes	N/a	Yes	N/a
Integrated National Electrification Programme Grant	(13 477 233)		14 000 000	(7 539 239)	(7 016 472)	No	N/a	Yes	N/a
Municipal Systems Improvement Grant	-		890 000	(890 000)	-	No	N/a	Yes	N/a
Finance Management Grant	-		1 650 000	(1 650 000)	-	No	N/a	Yes	N/a
Pound Grant	490 490				490 490	No	N/a	Yes	N/a
Provincialisation of Libraries Grant	-		886 000	(886 000)	-	No	N/a	Yes	N/a
Library Community Services Grant	-		19 000	(19 000)	-	No	N/a	Yes	N/a
Sub-Rank Facility Grant	3 000 000		3 000 000	(3 702 308)	2 297 692	No	N/a	Yes	N/a
Cultural Village Grant	3 000 000			(1 507 473)	1 492 527	No	N/a	Yes	N/a
Street Lights Grant	3 000 000			(2 340 861)	659 139	No	N/a	Yes	N/a
Thusong Centre Operational Grant	308 923			(308 923)	-	No	N/a	Yes	N/a
Sports Facility Grant	525 000		1 200 000	(1 694 464)	30 536	No	N/a	Yes	N/a
Expanded Public Works Programme Grant	822 604		1 000 000	(1 822 604)	-	No	N/a	Yes	N/a
Sports Facility Maintenance Grant	-		150 000	(74 465)	75 535	No	N/a	Yes	N/a
IDP Grant	-		200 000	(200 000)	-	No	N/a	Yes	N/a
Development Administration Grant	205 686				205 686	No	N/a	Yes	N/a
Integrated Electrification Redds	98 000				98 000	No	N/a	Yes	N/a
Tourism Grant Candover	290 862				290 862	No	N/a	Yes	N/a
Strategic Support Grant	93 848				93 848	No	N/a	Yes	N/a
Synergistic Partnership Grant	123 104				123 104	No	N/a	Yes	N/a
Housing Community Gardens Grant	72 864				72 864	No	N/a	Yes	N/a
Planning and Development Grant	47 621				47 621	No	N/a	Yes	N/a
Municipal Development Grant	100 000				100 000	No	N/a	Yes	N/a
	6 042 581	-	38 509 000	(45 023 669)	(472 088)				

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